JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS & ECONOMICS

UNIVERSITY EXAMINATION FOR THE BACHELOR OF LOGISTICS AN SUPPLY CHAIN MANAGEMENT

2ND YEAR 2ND SEMESTER 2022/2023 ACADEMIC YEAR

MAIN /NAIROBI CAMPUS

COURSE CODE: BAB 9204

COURSE TITLE: BUSINESS FINANCE

EXAM VENUE:

DATE: 19/12/2022 **SESSION: 15.00-17.00PM**

DURATION: 2 HOURS.

INSTRUCTIONS

a) **Answer QUESTION ONE and any other TWO questions**
b) **Candidates are advised not to write on the question paper**

QUESTION ONE

1a) Define long term and short term finance decision. Also explain the major rolesof finance manager (10mks)

(b) Who are the major users of financial analysis? (5mks)

ii) Giliani supermarkets has made plans for the next year. It is estimated that the company will employ assets of Kshs. 800000/- of which 50% of the assets will be financed by 8% p.a debt. The direct costs for the year are estimated at Kshs. 480 000/- and all others operating expenses are estimated at Kshs. 80 000/- The goods will be sold to customers at 150% of the direct costs. Tax rate budget is 50% of net income before taxes.

Calculate:

i. Net profit
ii. Return on assets
iii. Assets turn over
iv. Return on owners' equity. (10mks)

(c) Briefly explain three functions of finance/ planning (5mks)

QUESTION TWO

(a) Define theconcept of the opportunity cost of capital (5 mks)

(b) Assuming that a firm pays tax at 50 % compute the after tax cost of:
   i. A 8.5% preference shares sold at par
   ii. A personal bond sold at par with a coupon rate of 7%
   iii. An ordinary share selling at current market price of Kshs 120/- and paying current dividend of Kshs 9/= per share which is expected to grow at 8% (9mks)

(c) Twiga Chemicals LTD has the following book value capital structure as at 31/3/2014 in Kshs share capital 450,000/=, reserves and surplus 150,000/=, preference share 100,000/=, debt 300,000. The expected after tax component costs of various sources of finance for the company are as follows: -
Equity 18%, Reserve and Surplus 18%; Preference shares 11% ; Debt 8%

Required: -

The weighted average cost of capital for the company (6 mks)

QUESTION THREE

(a) Discuss the importance of investment decisions (5mks)

(b) Equipment A has a cost of Kshs75,000 /- and net cash flow substitute equipment B would cost Kshs 50,000/= and generate net cash of Kshs 14,000/= per year for six years. The required rate of return for both equipment's is 11%. Calculate the IRR and NPV for the equipment's. Which equipment should be accepted and why?

(5mks)

QUESTION FOUR

(a) What is the net concept of working capital? (5mks)

(b) Explain both the dangers of either excessive or inadequate working capital (5mks)

(c) A company is currently selling 100,000 of its product at Kshs 50/- per unit. At the current level of production, the cost per unit is Kshs 45/=, variable cost per unit being Kshs 40/-. The company is currently extending one month's credit to its customers. It is thinking of extending credit period to two months in the expectation that sales will increase by 25%. IF the required rate of return (before tax) on the firm's investment in 30%.
Required: - Is the new credit policy desirable? Show your workings
(10mks)

QUESTION FIVE

a) Specify the limiting assumptions of Cost-Volume Profit analysis (5mks)

b) A company makes single product with a sales price of Kshs 100/= and a marginal cost of Kshs 60/-. Fixed costs are Kshs 600,000/-

Required: -

i. Number of units and revenue level to break even

ii. Number of units and revenue to achieve a profit of Kshs200,000 (15mks)